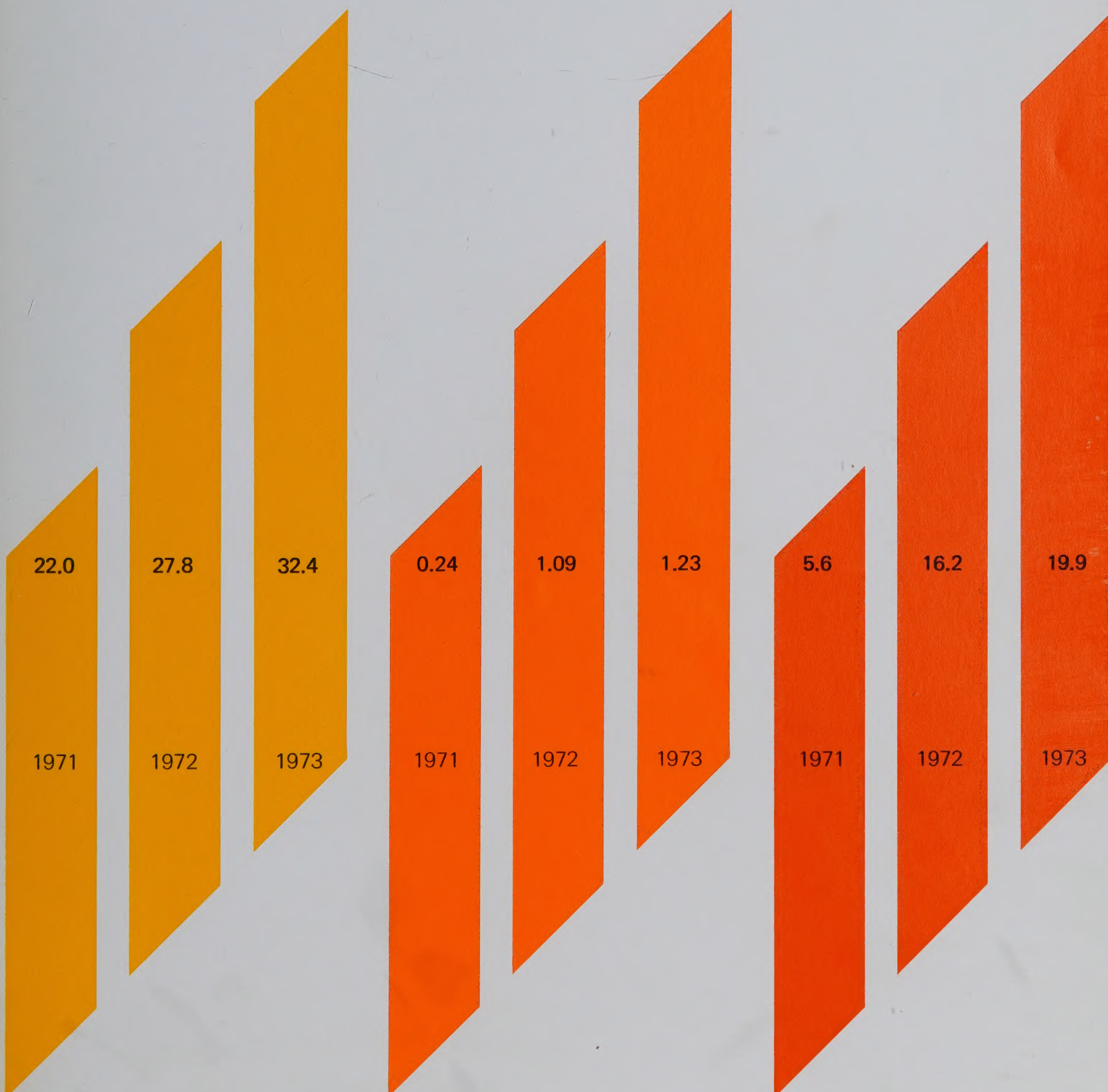
HOWDEN

D. H. HOWDEN & CO. LIMITED

1973 report to shareholders



SALES ($ MILLIONS)

EARNINGS per common share ($)

RETURN on shareholders equity (%)

HIGHLIGHTS

	1973	1972
Gross sales — increase 17%	$32,476,731	$27,794,722
Earnings before income taxes and extraordinary item	1,296,869	875,375
Income taxes	670,000	444,000
Earnings before extraordinary item	626,869	431,375
Per Common share	1.21	0.82
Extraordinary item	10,000	134,824
Net income	636,869	566,199
Per Common share	1.23	1.09
Inventories	3,780,499	3,331,779
Working Capital	4,142,126	3,737,735
Long-term Debt	875,348	991,109
Retained Earnings	3,013,910	2,397,394
Ratio of current assets to current liabilities	1.83:1	1.80:1
Shareholders' equity per Common share	$ 6.61	$ 5.38

Annual Meeting
The Annual Meeting of the Shareholders of the Company will be held in the Campaign Room, Holiday Inn, 299 King Street, London, Ontario on Tuesday, the 14th day of May, 1974 at the hour of 11:30 a.m.

D. H. HOWDEN & CO. LIMITED

INTERIM REPORT TO THE SHAREHOLDERS

For the Nine Months Ended
September 30, 1973

D. H. HOWDEN & CO. LIMITED
and subsidiary companies

To Our Shareholders:

Consolidated sales for the first nine months of 1973 were $23.6 million as compared to $20.8 million for the same period of 1972, an increase of 13%.

We report consolidated net income after taxes of $429,790 or 84¢ per share, as compared with $331,309 or 64¢ per share in 1972, an increase of 30%. Shareholders' equity per share now stands at $6.21 or a 28% increase over the past twelve months.

Pressure on our warehouse facilities grows as sales volume expands. We require additional warehouse space to meet present needs and future sales growth. As a result, we have commenced a 31,500 sq. ft. expansion to our Southdale Road warehouse. This addition will be financed on a leaseback basis and will be added to our present long-term lease arrangements. We have also completed a purchasing agreement on adjoining land to meet possible future building needs.

Company sales programs are enjoying strong market acceptance and profitability shows continued improvement which we expect will be maintained through the final quarter.

October 30, 1973

D. H. M. Stewart
President

CONSOLIDATED STATEMENT OF EARNINGS

	For the Nine Months Ended September 30		For the Twelve Months Ended September 30	
	1973	1972	1973	1972
Gross Sales	$23,566,592	$20,770,258	$30,591,056	$26,712,990
Estimated Net Income before Taxes	856,990	704,609	1,054,338	851,993
Estimated Provision for Income Taxes	427,200	373,300	497,900	476,100
Net Income after Taxes	$ 429,790	$ 331,309	$ 556,438	$ 375,833
Dividends to Preference Shareholders	$ 11,509	$ 12,590	$ 19,985	$ 20,551
Earnings per Common Share	84 cents	64 cents	$ 1.07	71 cents

The above information is taken from the Company's unaudited interim financial statements as at September 30, 1973 and is subject to adjustment on audit at December 31, 1973.

D. H. HOWDEN & CO. LIMITED

INTERIM REPORT TO THE SHAREHOLDERS

For the Three Months Ended
March 31, 1973

D. H. HOWDEN & CO. LIMITED

To Our Shareholders:

Consolidated sales for the first quarter of 1973 were $6,635,747 as compared to $6,242,370 (restated) for the same period in 1972, an increase of 6%.

We report consolidated earnings of $85,186 or 16 cents per share as compared with $93,183 or 17 cents (restated) in 1972.

In appraising the above figures we point out that store installation crews were expanded significantly early in the quarter in response to much increased and immediate demand for store engineering services. Similarly, warehouse staff has been increased steadily during the quarter in anticipation of sales growth forecast from new Pro stores and programmed building supply outlets. The benefit from these first quarter cost increases will materialize during the balance of the year.

The first quarter of last year was somewhat unique in that its consolidated results benefited to the extent of 3 cents per share as a result of the sale of one of the Company's major retail outlets.

Shareholders will be pleased to know that through the new relationship established with A.I.D. Lumber, one of Canada's largest dealer building supply cooperatives, the Company is now in a position to achieve new sales records in 1973 in the servicing and supply of the retail building materials market.

Three subscribers to Computer Horizons (Canada) Limited became operative and on-line with Columbus in April.

D. H. M. Stewart
President

April 30, 1973

CONSOLIDATED STATEMENT OF INCOME

	For the Three Months Ended March 31		For the Twelve Months Ended March 31	
	1973	1972 (restated)	1973	1972 (restated)
Gross Sales	$6,635,747	$6,242,370	$28,188,099	$23,854,145
Estimated Net Income Before Taxes	168,686	209,183	834,878	653,591
Estimated Provision for Income Taxes	83,500	116,000	411,500	387,820
Net Income after Taxes	$ 85,186	$ 93,183	$ 423,378	$ 265,771
Earnings per Common share after provision for Preference dividend	16 cents	17 cents	81 cents	49 cents

The above information is taken from the Company's unaudited interim financial statements as at March 31, 1973 and is subject to adjustment on audit at December 31, 1973.

TO OUR SHAREHOLDERS:

The year 1973 was a good one for Howden . . . the best we have ever had. Sales were up; profits were up. The management and staff of your Company are very encouraged by the performance during 1973 and the following are highlights of the year just completed.

Sales rose to **$32,476,731** a **17%** increase over 1972 figures. Profits reached **$626,869** or **$1.21** per Common share . . . a **45%** jump over 1972 earnings. Per-share earnings for 1972 were 82 cents before an extraordinary item and $1.09 after the item. In 1973, they were $1.21 before and $1.23 after an extraordinary item.

This is a significant accomplishment. Our 1973 profits of $626,869 means a 20% return on Shareholders' Equity as of January 1, 1973. Several years ago, we set as our goal a 15% return on Shareholders' Equity each year, and it is noteworthy the degree that we surpassed this goal.

There were a number of significant happenings in 1973 which strengthened the Company as well as augmented its basis for further growth in 1974.

Thirty new Pro franchised outlets joined the organization during 1973. In addition many of our older franchised outlets modernized or expanded their premises. Our stores report record sales and profits, and face 1974 with optimism.

During 1973 we continued to expand within our traditional Ontario market and also established Pro outlets in the Maritime Provinces. These are mainly building materials dealers who offer great growth potential in the Home Centre market.

We were chosen as the hardware supplier to AID Lumber and to Allont Build-All which provides us new growth potential in the home improvement field in Eastern Canada.

Computer Horizons (Canada) Limited, our joint venture with Management Horizons Data Systems Inc., Columbus, Ohio, owned by the First National City Bank of New York, began to earn a monthly profit in September 1973. More distribution companies are scheduled to use this unique computerized data processing system in 1974, and the company's investment in Computer Horizons will begin to bear fruit.

We began work in December on a 30,000 sq. ft. addition to our London distribution centre. As it becomes functional this year it will relieve the

strain on our supply system, and warehouse facilities. We also acquired under a purchase agreement a two and one-half acre site beside our present location. Subject to rezoning, this land will be available for further expansion.

Your Company sold Wiseway of Canada Limited to its dealers, while retaining a long term contract to supply its hardware needs. This decision was based primarily on management's desire to retrieve working capital tied up in the supply of building materials which did not prove a productive investment.

We concentrate on maximizing the turnover of investment in our two major assets, inventory and accounts receivable, by keeping our investment in inventory to moving merchandise while encouraging prompt payment by our customers. Combined with bank and debt financing, reinvestment of earnings and reduction in long term investment in subsidiaries, we continue to augment our financial base for future growth.

For the future we see productivity . . . of people, of money, and facilities . . . the key to a profitable distribution business. To achieve high productivity we must ensure that our equipment, system and facilities are among the best and most modern available. Then we must have the sales programs whose customer acceptance leads to maximum use of all these facilities. In that way our fixed cost stays relatively low. Under such conditions, prices can be maintained at competitive levels yet sufficient to achieve an adequate profit in relation to investment.

In reporting the good results of 1973, on behalf of the Board of Directors, I express appreciation and thanks to our proficient staff who during 1973 made things happen, and to our customers for their increasing support and for serving the consumer well. We owe a debt of gratitude to our suppliers who in the face of material shortages did their best to meet our increasing demand for their products. Most especially do we thank the Shareholders for their support and in doing so the Board states that it recognizes the responsibility of the Company to provide Shareholders at the earliest date with a return on their investment.

On behalf of the Board,

David H Stewart

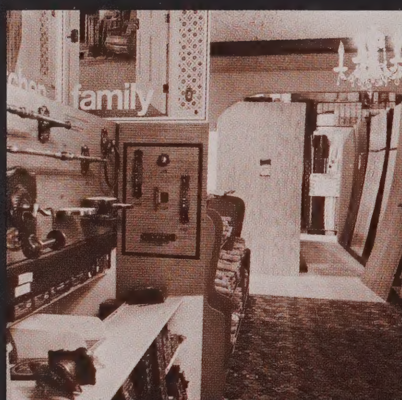
D.H.M. Stewart
President and Chairman of the Board

1

2

3

4



5

6

7

8

9

1. Over 250 Fully Identified Pro Stores

2. Over 7000 items in stock

3. Complete and comprehensive advertising

4. Customer satisfaction

5. Pro enters the Home Centre Market

6. Howden Electrical — Retail Division Serving Western Ontario for over 50 years

7. Our Store Engineering consultants plan and merchandise hundreds of stores each year

8. Retail Data Division — Providing complete store management systems

9. Computer Horizons — Educational Seminar for new subscribers

The concept behind D.H. Howden's success is a simple one: there is strength in numbers. Thus, the Company is more effective in the marketplace than any of its component divisions or retail outlets.

An individual store owner is in a poor bargaining position when dealing with manufacturers. However, by pooling their buying power through Howden, store owners can even the odds. Howden can negotiate . . . and obtain . . . high-quality products at reasonable prices, and the support of a low-cost advertising program.

Similarly, Howden acquires greater power again through its participation in the Pro Hardware and Span-Canada Electric networks of distributors. When Pro speaks, it speaks with the voice of eight major Canadian distributors.

This system results in benefits for all parties concerned. It is more economical for a manufacturer to sell to a group, such as Pro or Span-Canada, rather than to 500 individual accounts. Pro and Howden benefit because they can negotiate more attractive purchases whose economies are passed along to the dealers and consumers. Ultimately, the consumer benefits because he or she can obtain better value for his or her money.

That's the basic concept. To implement it, Howden has established four divisions:

Hardware and Home Products

Building Supply

Sporting Goods

Electrical Supply

Each division is separate, but shares a common goal . . . to obtain the best possible product at the best possible price and to provide our dealers with the best possible service.

Hardware and Home Products Division

The Hardware and Home Products is the largest of the Company's divisions in terms of sales, inventories and personnel. Its primary responsibility is supplying the Company's over 250 Pro retail hardware stores in Ontario, Nova Scotia, New Brunswick and Prince Edward Island. These outlets are independently owned and financed, carry the Pro insignia and utilize the merchandising techniques which form part of the franchise agreements.

Most of the Division's effort is directed toward the Pro dealer, towards his upgrading, towards placing him in an improved competitive position. The Pro dealer must be assured, not only of a full assortment of consumer products, but of a complete retailing system which includes store modernization, inventory controls, low-cost consumer advertising, circulars, catalogues, newspaper and TV advertising programs and retail financial control systems. By using these services, Pro dealers can achieve greater profit return on investment. The value of the Pro franchise concept shows up in an average 10% annual growth in the number of franchised outlets.

General hardware, housewares, leisure and entertainment products are the stock-in-trade of these high-turnover outlets. Pro stores are specialists in hardware merchandising, carrying "breadth and depth" of product lines which are competitively priced and supported by complete product knowledge on the part of store personnel. Because Pro stores are better able to supply the varying needs of the consumer for hardware and related products, they are earning increasing support from the consumer.

While the Division is constantly improving its retail marketing systems, improved buying power is a result of Howden's national participation in Pro Hardware (Canada) Limited. Pro's buying strength provides economies of volume and safeguards of quality. Of equal importance are the marketing and advertising techniques which it also develops on a cross-Canada basis to meet current needs and which are utilized by member distributors. During 1974, for example, the Division's seasonal catalogues will feature a new building materials section to help Pro Home Centres sell building materials such as plywoods, doors, windows, etc.

Over the years, this method of co-ordinated effort from manufacturer to distributor to retail outlet builds a stronger and more profitable retailer, Not only does he compete with national chains to his own profit, but he also makes available superior service at competitive prices to the ultimate consumer. Pro stores concentrate on providing the consumer with "value for your money" supported by the specialized knowledge to help the consumer make the right purchase.

While 1973 was an excellent year for all Pro franchise dealers, the future looks brighter still. Between 1973 and 1981, an increase of about 32% in the 28-to-34-year age group has been projected, which will bring higher rates of family formations, continuing high consumer spendable income, increasing leisure time and expanding activity by the home handyman. Ultimately, this will result in increasing demand for products sold by the Company.

Backed by a proven supply system, the Division will derive its growth from this proven and expanding market, from scheduled upgrading of existing outlets and from normal growth in number of franchised outlets. Budgets for 1974

forecast increases in volume equal to or better than the annual average advances of 15% recorded during 1972 and 1973.

Building Supply Division

The Building Supply Division directs its sales efforts to about 400 building materials or lumber dealers throughout Ontario and Eastern Canada.

Like the Hardware and Home Products Division, it engages heavily in franchised or contract systems. In this way it acts as a supplier of hardware to such major lumber dealer groups as A.I.D. Lumber, Allont Limited (Build-All stores) and Wiseway of Canada Limited. Affiliated with each of these groups is a number of progressive retail lumber yards and dealers, comprising the growing core of the Division's clientele. Both A.I.D. and Allont have member dealers in the Maritimes and Quebec; therefore, the Division has extended its operations to these areas.

Many traditional lumber dealers in Eastern Canada are expanding their businesses to Home Centres . . . selling not only building materials but a broad range of consumer hardware and home improvement products as well. The Division is responsible for developing the Pro Hardware franchise system in the Maritimes market, and for servicing lumber dealers in Eastern Canada who want to broaden their inventories in consumer merchandise. Howden store engineering services and advertising programs are much in demand in this growing retail segment. As was mentioned earlier, Pro Hardware (Canada) Limited is expanding its consumer catalogue to include an optional section on building materials for use in Ontario and the Maritime Provinces.

All market forecasts indicate that this trend in merchandising is one for great future growth. Sales increased at an average rate of 18% in 1972 and 1973, and are budgeted to extend this trend through 1974 as the number of outlets increases.

Sporting Goods Division

The channels of distribution by which sporting goods reach the consumer are varied and numerous. Howden recognizes the need for a more efficient distribution method, better suited to the requirements of the sporting goods dealer or sporting goods departments of major chain retailers. Therefore, the Sporting Goods Division has been working with four major Canadian sporting goods distributors to create a new organization patterned after Pro Hardware (Canada) Limited. It will be known as Supreme Sports Limited and will initially concentrate on the supply of firearms, ammunition and hunting supplies. In the future, the supply of fishing tackle, camping supplies, team sports equipment and related sporting goods could be of major interest to Supreme Sports Limited.

While the hardware and building supplies dealer is usually well established, many sporting goods dealers are new companies, lacking experience in merchandising and finance. But the popularity of sporting goods and the increasing leisure and buying power of the consumer cannot be denied. Howden is therefore pressing for the franchising of its better dealers and is assisting less well-established dealers to set up financial controls.

Electrical Supply Division

This Division is geographically separate from the Company's main London installation, which services the Hardware and Home Products, Building Supply and Sporting Goods Divisions. The main Electrical Supply Division is located in downtown London, with two satellite warehouses in Sarnia and Kitchener. The Division's products are electrical construction materials; its customers are mainly contractors, utilities and industrial users. Quality products at competitive prices, backed by prompt service is their greatest need . . . a need which this Division fills. As a result, it recorded its most successful year in 1973 both as to sales and profits.

Although it is less involved in the franchising concept than the other Divisions, it does enjoy and contribute significant benefits through that medium. As one of the 17 member companies of Span-Canada Electric Limited, the Division is assured of a dependable supply of high quality merchandise at volume prices, together with merchandising programs developed by Span-Canada.

The Division's system also enables the Hardware and Building Supply operations to provide a broader range of electrical products to the new Home Centres than would normally be available from typical hardware distribution sources. The Company's total merchandise offer thus is materially strengthened.

Growth has been rapid in this Division in both 1972 and 1973 with an average annual increase of 25%. As with all businesses dependent on new construction and industrial expansion, the outlook for 1974 and beyond is greatly influenced by conditions within the building trade and the general economy. In its present condition, the Division is well equipped to contribute profitably to corporate growth in the period ahead. Our 1974 forecasts call for increases, but at lesser rates than in 1973.

Howden, Southdale Rd. Distribution Centre with new 30,000 sq. ft. addition.

The strong purchasing power made possible through the Pro and Span companies is perhaps their greatest benefit. But it certainly isn't the only one.

Being a national network, Pro can undertake distribution, advertising, dealer upgrading and data processing programs . . . dealer benefits which the individual retailer couldn't even begin to consider on his own. Again, the Pro concept proves that the whole is greater than the sum of its parts.

Our philosophy in the support services area is to pool our resources and concentrate our collective efforts on achieving the greatest benefit for the largest number of retailers at the minimum price.

That is our goal; here's how it works.

DISTRIBUTION

In their efforts to supply their customers with merchandise, all Divisions went through trying times in 1973. The supply from manufacturers was erratic, placing great pressure on our staff. Without computer inventory control, which automatically adjusts purchase lead times, our 91% service level would not have been attainable. Sales expansion in the face of shortages compounded supply problems and physical facilities were strained almost to the breaking point. Staff in all divisions performed magnificently in meeting these difficult challenges.

The new 30,000 square foot addition is a first step in providing a new basis to meet the Company's anticipated volume increases. Expanded shipping and receiving facilities permitted the redesign of physical order processing throughout the entire 185,000 square foot facility. Three separate, yet integrated, systems of moving materials are now operating.

In the basic unit, in-bound and completed out-bound orders are transported on warehouse flat trucks on a Towveyer system . . . a continuous loop of chain running on a floor-installed channel which moves specially designed flat trucks along its path. The trucks, moving to pre-designated locations in the distribution centre by means of a coding system handle the bulk of incoming merchandise.

The order filling function in the repackaging area is served by a roller conveyor system which, in turn, feeds the Towveyer system. Bin sizes and surplus stock areas have been enlarged, permitting faster and more accurate filling in this exceedingly busy and detailed area.

The third system improves the "picking" function in the "case goods" or palletized zones. Operator-driven mechanical picking equipment processes bulk materials up to heights of 18 feet. The units are guided down the aisle by a track on either side, selecting at desired levels. It too feeds the Towveyer system which in turn delivers the completed order to the shipping assembly area. The benefits of all three systems reside in increased speed, reduced cost and improved productivity.

Forecasts of sales requirements from warehouse inventories indicate increases of at least 12% annually from 1974 through 1976, which can be accommodated by the most recent warehouse expansion. However, for future growth, utilization of an additional two and one-half acres of land adjacent to the present site will be needed. As mentioned earlier, a purchase agreement for this property has been negotiated.

Sophisticated techniques to improve material handling efficiency, such as automatic order-entry devices, are being tested. These portable electronic units are now in use by selected dealers who record their stock replenishment requirements by Howden number on a cassette. After hours, the information on the cassette is transmitted electronically over the dealer's telephone system to the Howden computer equipment to produce the documents for the morning's order filling team. Such a system bypasses the postal service, giving the dealer better order delivery time to his economic benefit.

During 1973, we expanded our fleet of trucks and tractor trailers and now deliver over 90% of shipments in our own vehicles. Our tractor trailers cover the Maritimes every week.

Distribution functions live or die on the entry of merchandise in the proper flow to the warehouse, its orderly stocking, the production of orders to precise schedules and the shipping of orders to dealers completely, promptly and with proper documentation. Again, the benefits of the franchise agreement become tangible to both the warehouse and dealer as it makes mandatory a precise and complete scheduling of orders and paper flow, starting with the dealer. The processing of such orders yields much higher rates of productivity than does random order filling. Thus, through the franchise system distribution costs can be lowered and competitive prices maintained.

DEALER SERVICES DIVISION

Dealer Services Division is responsible for helping Pro dealers develop into successful and profitable retail outlets. This Division is expert in designing stores, in installing our Model Stock Programs within the space available and in making the store a specialist in hardware and home improvement products.

The Model Stock Program deserves some explanation. Essentially, it is a way of transferring what Howden has learned about efficient inventory management and applying it

to the individual retailer's business. Based on our past experience, we select a range of 7,000 products which we know will sell . . . easily, quickly and profitably. In this way a dealer doesn't tie up his funds in products that will never sell. So he has more money to invest in high turnover products that create profits. When the Model Stock is installed, it is arranged in a logical order and identified by a bin location ticket. Related products . . . paint, wallpaper, brushes, rollers . . . are grouped to make shopping easier for the dealer's customers.

The Division now operates eight three-man crews making new fixtures and stock installations in Ontario, Quebec and the Maritimes. During 1973, the Division was responsible for re-merchandising 70 installations. While we charge a fee for this service, the Division does not operate at a profit nor is it designed to. Its purpose is to create more effective dealers and to train them in Company systems. We view its operating loss as an investment in the future.

RETAIL DATA SYSTEMS

This Division sells data processing services to retailers. Through manual or cash register input at the dealer's store, the system produces the dealer's inventory and management reports, and processes all his accounts receivable requirements. So the small retailer has access to the most sophisticated electronic data processing currently available. In effect, he has his own computer at his beck and call. At the present time, major equipment manufacturers are developing new devices to act not only as cash registers, but as transmitters of data and purchase orders over telephone lines to central computers. This Division is in the forefront of this activity, which is important to our franchised dealers . . . to their financial controls and their ability to compete successfully in the future.

FINANCE

Record profits in 1972 of $566,199 and in 1973 of $636,869 are major factors contributing to much increased working capital at 1973 year-end of $4,142,126, and to retained earnings of $3,013,910.

The improving per cent profit return to sales for 1973 was gratifying. But of equal significance was the improving rate of turnover of Company assets, of which inventory and receivables are by far the largest value. This is in keeping with Howden strategy of being a high turnover, highly leveraged business making maximum use of its capital to maximize the profit return on net worth. The minimum corporate requirement for the total company financial growth is 15% return on Shareholders' Equity. The Company return on net worth of 20% compares most favourably with a 7-10% average return for U.S. distributors as reported by the National Wholesale Hardware Association.

While year-end inventories were increased by 13% to accommodate substantially higher sales throughout the year, inventory turnover is up in all divisions. We expect the trend to continue into 1974. However, unpredictable delivery schedules from manufacturers, if they continue, tend to disrupt lead times which has the ultimate effect of increasing inventory investment.

Accounts receivable were higher by 5% at year end. During 1973, we concentrated on the management of receivables, on stabilization of payment terms for franchisees and contractors and on working out refinancing for under-capitalized dealers and customers. Turnover stepped up accordingly. Financial strength at the dealer level is fundamental to the high asset turnover philosophy which requires that sales be restricted to financially responsible accounts.

Short term bank loans were reduced to $1,100,000 at year end, an improvement of $500,000 from 1972. Lines of credit were ample during the year to support seasonal requirements and sales growth. Long-term debt outstanding at year end was $875,348, reduced by $115,761 during the year through scheduled instalment payments of debenture sinking funds and mortgages, and through the sale of the wholly-owned Wiseway of Canada Limited.

Expenditures on new equipment were nominal at $67,101. In 1974, however, warehouse handling equipment in excess of $230,000 will be acquired as part of the Southdale Road expansion. Its financing is arranged through the Company's bankers . . . Bank of Montreal . . . on a term loan basis. Financing of the building addition itself, was effected through a purchase/lease arrangement with North American Life Assurance Co., lessors of the existing Southdale Road property.

Operating advances to Computer Horizons (Canada) Limited reached a high point at year end of $220,000. Howden's equity in the operating loss of Computer Horizons in 1973 was $20,807. During September 1973, however, Computer Horizons began to earn a monthly profit. Therefore, 1974 revenues will contain and reduce outstanding Howden advances. There are now four Canadian companies fully on-line with the Company's computer complex in Columbus, Ohio, each processing transmissions daily. In addition, Howden will commence the first phase of its processing implementation in September of this year. Additional subscribers will be joining the system in 1974.

ADVERTISING

All our effort in mass buying, distribution, store modernization, is simply a prelude to the most important task of all . . . selling our products.

Pro carries out an aggressive advertising program, made possible by the basic uniformity among the product lines carried by all Pro outlets. A consumer can purchase a particular advertised product in any one of the 500 Pro stores across Canada and that's the only way it can be if Pro is to have a national advertising program.

For each of the seven sales events this year, Pro will be issuing over 1,000,000 product catalogues, which describe hundreds of products . . . all available at Pro outlets. They are well designed, and the Spring, Fall and Christmas catalogues are in full colour photography on all pages. Because of the large number of catalogues, we are able to pass along cost savings to our dealers. The dealers can purchase catalogues at a price they could not possibly obtain if they were to produce their own. By pooling their resources through the Pro group, the dealers obtain a professionally executed catalogue at minimal cost.

That catalogue is, in effect, the culmination of a long chain of events . . . beginning with the manufacturer, through the Pro group, to the Howden facilities, and ultimately to the dealer's store.

It is as far as we can go; from there on, it is up to the dealer. However, he can greet his customers confidently, knowing he has a modern, well designed store offering quality products at reasonable prices.

CONCLUSION

In this year's financial report to Shareholders we have tried to give a more detailed explanation of the Howden operation and its marketing organization. But to better understand the Company in its current setting we should comment very briefly on marketing changes during the last decade which have had the effect of increasing the importance of the distribution function and therefore have strengthened the Company greatly.

Prior to 1960, in the main distributors bought merchandise in quantity then sold it in smaller quantities to many outlets. Distributors competed largely on the basis of price. Distribution costs were high and as a result profits low. While this is still the basic distribution function, in the 1960's the successful distributor of today began to do things differently. He had to lower distribution cost or perish. Along with the supply of merchandise he began to provide the retailer with a total marketing plan or system designed to service better the growing and diverse needs of the consumer, and at the same time to lower distribution costs. Dealers who wish to use the distributor's system become franchised dealers and agree to buy their merchandise requirements from the distributor. Achieving greater efficiency becomes a joint goal. The computer plays a major role in making such systems successful.

The distributor's plan in fact joins the manufacturer and retailer into a union of mutual support. It becomes a Vertical Marketing System. As a result of such a union the distributor creates for himself a position of new market dominance with great growth potential, particularly so if his marketing plan proves profitable to his customers. The Canadian Tire Corporation, K-Mart, I.G.A., Consumers Distributing Co. Ltd., are examples of some of the major vertical marketing systems. Some are corporately owned, others take the franchise route, but all have a unique consumer offer.

As a result of such plans, competition today for the consumer's dollar is not so much between individual retail stores as between vertical marketing systems. The consumer chooses to buy from the vertical system whose offer best serves his need. The importance to the vertical system of clear and forceful store identification and of superior advertising is therefore paramount.

As a result of the Pro vertical systems, Howden is able to attract the better dealers to its program and to provide them with low cost merchanidse, the various tools to do their marketing job, and the ability to grow in a competitive and changing market. The benefits from the Pro program in fact work to the advantage of all of our customers.

On the other hand, the dealer provides Howden with the retail outlet and the advantages of on-site owner-management possessing a strong desire to serve the consumer the best. As a further economic advantage to our system, the distributor and dealer, each finances its own function. This provides a needed check on the economic efficiency of the system, for each function must be able to justify its own existence.

Such a franchised relationship is a union of strengths, based on co-operation and performance, one able to compete successfully in today's and tomorrow's retail environment. It is a program of growth.

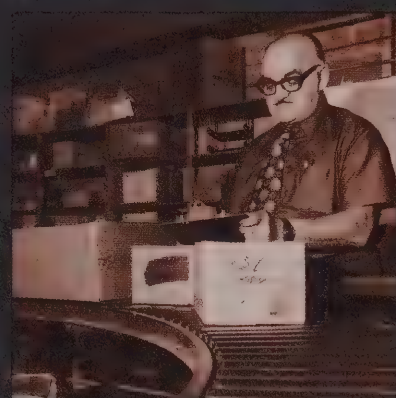

1


4

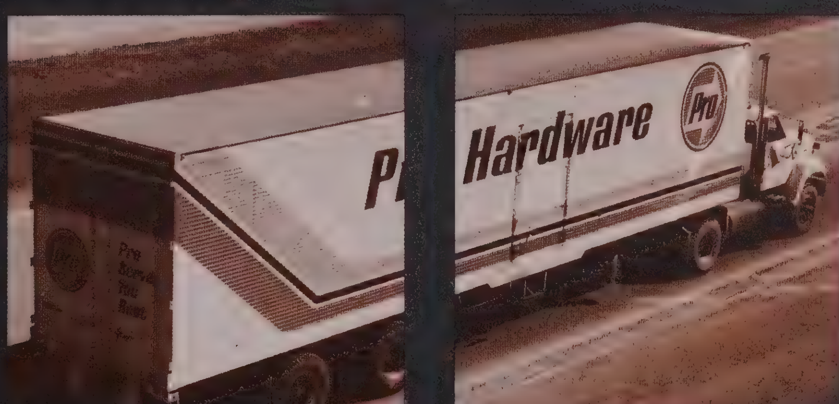

7


2


5


8


3



6

1. Order Desk. Working around the clock
2. A total Data Processing System
3. Supplies for Electrical Contractors
4. Towveyer System for Rapid Automated Material Handling
5. Automated Order Filling Unit
6. Pro Trucks on the Move — around the clock
7. Order Filling—Small goods
8. Conveyer Belt assembling completed orders

DIRECTORS

DAVID H.M. STEWART
Chairman
President, Pro Hardware (Canada) Limited

JOHN W. ADAMS, F.C.A.
Executive Vice President, Treasurer
and Director, Emco Limited
Director, Sifton Properties Limited
Member Financial
Disclosure Advisory Board,
Ontario Securities Commission

JOHN D. HARRISON, M.B.E., Q.C.
Partner, Harrison, Elwood
Barristers and Solicitors

DONALD R. HUGHES
President, Span-Canada Electric Limited

NORMAN McBETH

ROY W. ROBERTSON
Executive, Isard Robertson Easson
Co. Limited, Investment Dealers
Director, General Products Mfg. Corp. Ltd.

JOSEPH H. UNGER
Director, Metropolitan Stores of Canada Limited

OFFICERS

D.H.M. STEWART
President and Chairman of the Board

N. McBETH
Vice President - Finance, and Secretary Treasurer

K.G. ALLASTER, C.A.
Vice President - Controller

W.J. TARVIT
Vice President of Marketing - Hardware Division

F.P. FORAN
Vice President of Marketing - Building Supply Division

C.W.K. LEROY
Vice President of Marketing - Electrical Supply Division

M.C. HUMPHREY
Vice President - Distribution

HEAD OFFICE
635 Southdale Road
London, Ontario

ASSOCIATED COMPANY
Computer Horizons (Canada) Limited
President - S.R. Millar

AUDITORS
Touche Ross & Co.

LISTING OF COMMON STOCK
Toronto Stock Exchange

GENERAL COUNSEL
Harrison, Elwood,
Barristers and Solicitors

TRANSFER AGENTS AND REGISTRARS
Canada Trust Co.
(Common and Second Preference Shares)
Toronto, Montreal, London, Winnipeg,
Calgary, Vancouver

Royal Trust Co. — Toronto
(First Preference Shares)

OFFICERS (left to right)
F.P. Foran. Vice President of Marketing - Building Supply Division; M.C. Humphrey. Vice President - Distribution; N. McBeth. Vice President - Finance, and Secretary Treasurer; W.J. Tarvit. Vice President of Marketing - Hardware Division; D.H.M. Stewart. President and chairman of the Board; C.W.K. Leroy. Vice President of Marketing - Electrical Supply Division. Not present; K.G. Allaster, C.A., Vice President - Controller.

D. H. HOWDEN & CO. LIMITED AND SUBSIDIARY COMPANIES

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31st, 1973

(with comparative figures as at December 31st, 1972)

ASSETS

	1973	1972
Current		
Cash	$ 88,656	$ 46,015
Accounts receivable, less allowance for doubtful accounts of $271,278 in 1973 and $204,165 in 1972	5,182,223	4,940,433
Current portion of mortgage and debenture receivable	41,275	36,928
Inventories — at the lower of cost and net realizable value	3,780,499	3,331,779
Prepaid expense	25,755	44,687
Building under construction (note 2)	19,352	–
	9,137,760	8,399,842
Property, plant, equipment and leasehold improvements — at cost	538,091	502,781
Less accumulated depreciation and amortization	328,952	296,692
	209,139	206,089
Computer Horizons (Canada) Limited (note 3)	95,010	–
Other		
Cash surrender value of life insurance	18,865	17,915
Equity in unconsolidated subsidiaries (note 1)	2,770	2,800
Mortgage and debenture receivable	215,998	248,885
Deferred income taxes (note 4)	4,000	4,000
	241,633	273,600
	$9,683,542	$8,879,531

On behalf of the Board

Director D. H. M. STEWART

Director N. McBETH

LIABILITIES

	1973	1972
Current		
Bank indebtedness - secured	$2,091,306	$2,228,113
Accounts payable	2,303,412	1,995,928
Accrued liabilities	231,964	187,407
Current portion of long-term debt	75,351	68,848
Income taxes payable	293,601	181,811
	4,995,634	4,662,107
Computer Horizons (Canada) Limited (note 3)	–	21,421
Long-term debt (note 7)	875,348	991,109

SHAREHOLDERS' EQUITY

	1973	1972
Capital stock (note 8)		
5½% cumulative redeemable participating sinking fund first preference shares of $50 par value each Authorized and issued 1973 - 3,833 shares; 1972 - 4,470 shares	191,650	223,500
3% non-cumulative redeemable second preference shares Authorized shares of $1 par value each 1973 - 1,314,500 shares; 1972 - 345,500 shares Issued 1973 - 316,500 shares; 1972 - 293,500 shares	316,500	293,500
Common shares Authorized - 1,000,000 shares without par value Issued - 500,000 shares	290,500	290,500
Retained earnings	3,013,910	2,397,394
	3,812,560	3,204,894
	$9,683,542	$8,879,531

D. H. HOWDEN & CO. LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1973

(with comparative figures for 1972)

	1973	1972
Retained earnings, beginning of year		
As previously reported	$2,397,394	$1,909,253
Adjustment to reflect investment in Computer Horizons (Canada) Limited on the equity basis	–	56,992
As restated	2,397,394	1,852,261
Net income for the year	636,869	566,199
	3,034,263	2,418,460
Dividends		
First preference shares	11,509	12,590
Second preference shares	8,844	8,476
	20,353	21,066
Retained earnings, end of year	$3,013,910	$2,397,394

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1973

(with comparative figures for 1972)

	1973	1972
Gross sales	$32,476,731	$27,794,722
Less sales tax	2,517,858	2,140,454
	29,958,873	25,654,268
Cost of sales and operating expenses other than items noted below	28,533,806	24,616,493
Interest on long-term debt	60,083	67,567
Depreciation and amortization	47,308	46,482
	28,641,197	24,730,542
Operating profit	1,317,676	923,726
Share of loss of Computer Horizons (Canada) Limited	20,807	48,351
Income before income taxes and extraordinary item	1,296,869	875,375
Income taxes	670,000	444,000
Income before extraordinary item	626,869	431,375
Extraordinary item (note 10)	10,000	134,824
Net income for the year	$ 636,869	$ 566,199
Earnings per common share:		
Before extraordinary item	$1.21	$ .82
Extraordinary item	.02	.27
	$1.23	$1.09

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED DECEMBER 31, 1973

(with comparative figures for 1972)

	1973	1972
Source of funds		
Income		
Income before extraordinary item	$ 626,869	$ 431,375
Non-cash charges		
Depreciation and amortization	47,308	46,482
Deferred income taxes	–	18,000
Loss on disposal of equipment	2,469	2,487
Share of loss of Computer Horizons (Canada) Limited	20,807	48,351
	697,453	546,695
Gain on sale of shares of Wiseway of Canada Limited	10,000	–
Proceeds from sale of land	–	141,128
Proceeds from disposal of equipment	14,274	56,896
Reduction of mortgage and debenture receivable and other	32,917	20,000
Second preference shares issued	54,000	39,000
Debentures issued	–	21,000
	808,644	824,719
Application of funds		
Purchase of property, plant and equipment	$ 67,101	$ 65,675
Increase in cash surrender value of insurance	950	958
Advances to Computer Horizons (Canada) Limited	137,238	34,061
Decrease in long-term debt	115,761	95,747
Investment in debenture receivable	–	68,885
Reduction of first preference shares	31,850	11,550
Redemption of second preference shares	31,000	23,500
Redemption of debentures	–	7,000
Payment of dividends	20,353	21,066
	404,253	328,442
Increase in working capital	$ 404,391	$ 496,277

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1973

1. Principles of Consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Howden-Howland Limited, Cowan Hardware (1968) Limited and D. H. Howden Stores (Central) Limited for the year and Wiseway of Canada Limited for the period owned by the company in 1973. On May 1, 1973 D. H. Howden & Co. Limited sold its $100 investment in shares of Wiseway of Canada Limited to the Wiseway dealers. The former wholly-owned subsidiary, Wiseway of Canada Limited, as part of its business, buys goods for resale to franchised retail dealers without markup. These purchases and sales are not an integral part of the business of D. H. Howden & Co. Limited and therefore they have been excluded from the figures of sales and cost of sales in the consolidated statement of income for the period owned in 1973 and 1972.

The equity of D. H. Howden & Co. Limited in unconsolidated subsidiaries consists of the company's investment in Pro Hardware (Canada) Limited and in Span-Canada Electric Limited. Although these two companies are technically subsidiaries of D. H. Howden & Co. Limited through ownership of voting control, in substance they represent corporate joint ventures on the part of a number of non-competing wholesalers who participate in an integrated merchandising programme and volume purchasing. It was considered inappropriate to consolidate the assets and liabilities of these companies since they consist primarily of amounts due from unrelated companies to these subsidiaries on their behalf. All the expenses of these companies and volume discounts derived from their operations are apportioned to participating member companies. The share of D. H. Howden & Co. Limited in these expenses and volume discounts is reflected in the accompanying financial statements.

2. Warehouse Expansion

a) BUILDING

The company has contracted at a cost of approximately $300,000 for the construction of an addition to the premises rented from North American Life Assurance Company. Upon completion in 1974, the addition will be sold to North American Life Assurance Company under a sale and lease back agreement.

b) EQUIPMENT

During 1974 the company plans on automating certain aspects of its warehousing operations. For this purpose the company is contractually committed at a cost of approximately $230,000.

3. Computer Horizons (Canada) Limited

	1973	1972
Advances of working capital	$ 220,160	$ 82,922
Deduct: Share of deficit - 50%	(126,150)	(105,343)
	94,010	(22,421)
Investment - 20,000 common shares of no par value	1,000	1,000
Excess of investment and advances over share of deficit	95,010	(21,421)
Contingent liability re guarantee of bank loan	$ 100,000	$ 100,000

Computer Horizons (Canada) Limited is a company jointly owned with Management Horizons Data System Inc. of Columbus, Ohio. The company incurred a net loss of $41,614 for the year ended December 31, 1973, and has an accumulated deficit of $252,300 as at that date. D. H. Howden & Co. Limited's share of the accumulated deficit amounting to $126,150 has been reflected in these accounts.

According to the joint venture agreement, D. H. Howden & Co. Limited is responsible for financing the balance of the deficit of Computer Horizons (Canada) Limited amounting to $126,150, of which $94,010 has already been advanced. Under the foregoing provision any earnings of the company must first be applied to repayment of advances from and obligations guaranteed by D. H. Howden & Co. Limited.

4. Deferred Income Taxes

Deferred income taxes arise only on consolidation because the elimination of inter-company profits in inventories results in a decrease in consolidated net income to date and a consequent reduction in consolidated income taxes payable.

5. Lease Obligations

Rentals payable for warehouse and retail premises under leases expiring more than three years from December 31, 1973 approximate $141,000 annually. Such leases expire at varying dates before 1995.

6. Contingent Liabilites

The company is contingently liable in the amount of $371,167 for the guarantee of bank loans and conditional sales contracts, inclusive of the bank loan of Computer Horizons (Canada) Limited.

7. Long-term Debt

	1973	1972
Cowan Hardware (1968) Limited 8% first mortgage debenture repayable in monthly instalments of $1,923 blended principal and interest, maturing October 1, 1976	$ 57,299	$ 74,907
Wiseway of Canada Limited 6% unsecured debentures repayable within one year of termination of franchise agreements	–	45,500
D. H. Howden & Co. Limited 6% floating charge sinking fund debentures maturing May 1, 1989	893,400	939,550
	950,699	1,059,957
Less portion due within one year	75,351	68,848
	$875,348	$ 991,109

Under the terms of the Trust Indenture dated May 1, 1969 relating to the 6% sinking fund debentures, the company is required to pay to the trustee, for sinking fund purposes by May 1 each year, a sum equal to 10% of the company's net income before extraordinary items and excluding that of subsidiary companies.

8. Capital Stock

FIRST PREFERENCE SHARES

The provisions relating to the payments of dividends confer upon the holders of first preference shares a right to participate in dividends on an equal basis with the common shareholders up to a maximum of $2 per share, after a dividend of $ .06 has been declared on each common share.

The shares are redeemable, at the option of the company upon thirty days notice, at a premium of $1.50 plus any unpaid cumulative dividends.

Under the sinking fund provisions attaching to the shares, 637 shares were purchased for cancellation during the year at a cost of $28,062.

SECOND PREFERENCE SHARES

During the year 54,000 second preference shares were issued for cash and 31,000 shares were redeemed at par value.

The authorized capital of the company was increased $1,000,000 in 1973 by the issue of Amendment of Articles of Incorporation as of July 5, 1973 approving the creation of an additional 1,000,000 second preference shares.

9. Remuneration of Directors and Senior Officers

The aggregate direct remuneration for the year of the directors and senior officers amounted to $248,400 of which $220,400 was paid by the company and its consolidated subsidiaries and $28,000 was paid by unconsolidated subsidiaries.

10. Extraordinary Item

	1973	1972
Extraordinary items consist of gain on:		
Sale of investment in shares of Wiseway of Canada Limited	$10,000	–
Sale of land	–	$134,824
	$10,000	$134,824

11. Comparative Figures

The comparative figures have been reclassified where necessary to conform with the current year's classification.

AUDITORS' REPORT

The Shareholders,
D. H. Howden & Co. Limited.

We have examined the consolidated balance sheet of D. H. Howden & Co. Limited and its subsidiaries as at December 31, 1973 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants,

LONDON, Ontario,
January 29, 1974.

FIVE YEAR GROWTH PATTERN

	1973	1972	1971 (Restated)	1970 (Restated)	1969
Operating Results					
Gross Sales	$32,476,731	$27,794,722	$22,045,644	$20,118,085	$21,796,287
Income before income taxes and extraordinary item	1,296,869	875,375	399,964	182,518	366,606
Income taxes	670,000	444,000	258,800	115,600	182,695
Income before extraordinary item	626,869	431,375	141,164	66,918	183,911
Extraordinary Item	10,000	134,824	—	—	181,990
Net Income	636,869	566,199	141,164	66,918	365,901
Retained earnings	3,013,910	2,397,394	1,852,261	1,732,001	1,686,576
Financial Position					
Accounts receivable (net)	5,182,223	4,940,433	3,695,805	3,089,443	3,092,691
Inventories	3,780,499	3,331,779	2,651,372	2,592,864	2,803,080
Total current liabilities	4,996,634	4,662,107	3,277,627	2,906,757	3,156,881
Working capital	4,142,126	3,737,735	3,241,458	3,081,534	3,075,046
Long-term debt	875,348	991,109	1,072,856	1,093,241	1,123,664
Shareholders' equity	3,812,560	3,204,894	2,655,811	2,535,551	2,498,876
Per Common Share					
Earnings before extraordinary item	1.21	0.82	0.24	0.09	0.32
Net earnings	1.23	1.09	0.24	0.09	0.68
Shareholders' equity	6.61	5.38	4.29	4.05	3.95
Performance Measurements					
Asset turnover	3.06	2.80	2.88	2.65	3.14
Return on Sales	x 2.13%	1.68%	.76%	.39%	.84%
Return on Assets	= 6.52%	4.70%	2.19%	1.03%	2.64%
Leverage factor (Assets ÷ by Equity)	x 3.05	3.45	2.55	2.58	3.21
Return on Net Worth *(January 1)	= 19.89%	16.22%	5.58%	2.66%	8.47%

*Before extraordinary gain

D. H. HOWDEN & CO. LIMITED

Its Past . . .

The Company was founded in 1901 by one David Hartford Howden, who had "retired" at the age of 32 to London after making his fortune from a general store in the nearby village of Watford. From its inception, the Company held a unique policy, to carry a well planned inventory, to be a total source of hardware to dealers, and to ship every dealer's order the day it was received. Howden was known through the trade as "the quick shippers", and this became the Company slogan. The Company grew steadily.

David Howden died in 1918 and was succeeded by his son, Norman R. Howden, who was President until his death in 1936. During his administration, Howden purchased three other hardware companies including the firm of H.S. Howland, Sons and Company Limited, the major Central Ontario hardware distributor of the period.

Mrs. Lydia Howden succeeded her husband as President and held office until 1969 when Howden "went public", at which time David Howden Stewart, Managing Director and grandson of David Hartford Howden, became President.

The late 1940's and the 1950's to 1960 were difficult years for Howden and for distributors generally, most of whom operated without a clear sales policy.

Fortunately, in 1960, the Howden company changed direction, was reborn and, aided by new facilities with new franchising and merchandising policies, expanded sales dramatically during the 1960's.

In 1964, D.H. Howden & Co. Limited along with seven other hardware distribution companies formed Pro Hardware (Canada) Limited, which since has grown to a Canada-wide chain of over 500 franchised retail hardware outlets. In 1966, Howden incorporated Span-Canada Electric Limited which gives the present 17 member electrical distribution companies, strategically situated across Canada, the advantages of greater purchasing power and earning capacity.

HOWDEN

In 1970 Howden and Management Horizons Data Systems, Inc., Columbus, Ohio, through a joint venture created Computer Horizons (Canada) Limited to market the Management Horizons' computer system to Canadian distributors of hardware, electrical, plumbing, drug, and food products.

Its Present . . .

The Company has set as its objective to generate sufficient profits to create a 15% return on Shareholders' Equity each year. It draws its revenues from operations in three areas:

1. The distribution of hardware, shelter, leisure and entertainment products to retailers, including its franchised Pro Hardware outlets.

2. The distribution of electrical construction materials to contractors and industrial firms.

3. The supply of advertising and merchandising services as well as data processing systems to retailers and other distributors.

Its Future . . .

Diversification will be confined to fields within the Company's expertise such as distribution services and systems which expand or improve the present knowledge of the Company.

HOWDEN